

# Controller: 'Fiscal mismanagement' led to state budget crisis

By LARRY MITCHELL - Staff Writer

CHICO -- State Controller John Chiang, a Democrat, sounded like a Republican Tuesday as he talked about how to fix California's budgetary problems.

What's needed is "structural reform," he said. The state must stop spending more than it takes in, and it has to set aside a "rainy-day fund."

Aren't those the solutions proposed by Republicans, such as state Sen. Sam Aanstad, R-Grass Valley, and former GOP Assembly members Rick Keene and Doug LaMalfa?

Maybe so, but he shouldn't be mistaken for a Republican, Chiang said to a reporter who asked him about his comments.

When they talk about "structural reform," the two parties mean different things, Chiang said. "Republicans want permanent tax cuts. Democrats want permanent spending."

He suggested his own approach is more pragmatic.

Chiang, who was elected controller in 2006, spoke to the Chico Rotary Club Tuesday afternoon.

The controller is the state's chief fiscal officer.

Most of Chiang's talk to Rotarians concerned how the state got into the fiscal mess.

The story line runs through the entire decade, he said. As the new century began, there was the stock market "bubble."

Revenue came pouring into the state, but the governor and Legislature were irresponsible in their budgeting, he said. "Instead of saving the money in a rainy-day fund, they spent it all."

After the stock-market bubble burst, a recession set in and lasted for a year and a half, he said. Then there was a tremendous increase in the value of real estate.

When the real estate bubble burst, he said, tax revenue dropped suddenly.

California is paying the price for its leaders' "fiscal mismanagement" and lack of action, the controller said.

"We had to stop funding for 6,000 infrastructure projects," a decision that was painful but necessary, he said. At that point, the state only had 60 percent of what it needed to pay its bills.

States can't go bankrupt, but they can "default," he said, explaining it was his job to prevent California's defaulting.



If it had defaulted, creditors would have sued, right and left, and "we would have had tremendous havoc occurring," he said. As it is, California has the distinction of having the lowest credit rating in the nation.

Chiang said the special election on May 19 will be critical. Declaring he wouldn't tell Rotarians how to vote on the proposed spending cap and the plan to keep increased taxes in place for two more years, he said if they don't pass, the state will incur another \$5 billion debt for the next fiscal year.

There are only three ways to deal with budget shortfall: increase taxes, cut spending or borrow, he said. "For too long, the Legislature and the governor have relied on borrowing."

Having the governor and Legislature finally agree on a budget has "slightly reduced the problems," he said, "but it's far from the panacea that is needed."

Chiang talked about growing up in Chicago, the son of immigrants who came to America from Taiwan in the 1950s.

During his childhood, he and his family endured racial discrimination, which left a deep impression, he said. "My brand of politics is inclusive. Everybody is important."

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